ADDENDUM
IV

APPLICATION

FOR

MULTI-FAMILY HOUSING

DIRECT LENDING

Direct Lending Parameters updated April 26, 2006

Direct Lending Interest Rates updated August 29, 2005

Includes:

A. Tax Exempt (TEAM) Lending Parameters
B. Taxable Lending Parameters
C. HOME Team Advantage Lending Parameters
D. Section 236 Preservation Lending Parameters
E. Section 8 Preservation Lending Parameters
F. Preservation Lending Parameters for other federally-assisted or MSHDA-financed rental housing
G. Preservation Fund Parameters

EXHIBIT CHECKLIST

Addendum IV:

TEAM/Taxable/HOME TEAM Advantage/Preservation

INITIAL DETERMINATION PROCESSING PHASE

A. For **all new construction, or non-MSHDA occupied acquisition and preservation proposals**, the following lists of items must be submitted with the Primary Application during the Initial Determination phase when applicable. The items under the Feasibility, Commitment and Tax Credit phases, will be required upon request, but may be submitted now if available.

- Or -

B. For **all preservation proposals with current MSHDA financing**, the items listed under the Initial Determination phase and the Feasibility phase must be submitted with the Primary Application when applicable. The items under the Commitment and Tax Credit phases, will be required upon request, but may be submitted now if available.

Items 1-11 must be submitted and accepted for rate lock, HOME and Preservation Fund reservations. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required unless otherwise specified.**

√	#	Initial Determination Processing Documents
	ID-1	**A narrative description of the project** which includes the type of project; location; type of financing; tenants served, bedroom mix; local, federal or state subsidies; and other relevant information. (For rehabilitation projects, include a listing of the planned scope of work and proposed improvements).
	ID-2	**Land Control** - Documentation, signed by all applicable parties, in the form of warranty deed, exclusive option to purchase, land contract, etc., which evidences ability to maintain site control for 120 days from the date of application submission, with additional extensions available.
	ID-3	**Zoning** - Documentation from the appropriate local official on official letterhead (dated within 60 days of application submission), identifying the address of the project, the property's current zoning designation and an explanation of whether or not the project is permitted under the zoning ordinance. If the project is not currently properly zoned, what, if any, steps are in process to obtain proper zoning for the proposed development. The documentation must include a timetable for rezoning. (For Rehabilitation Projects, the letter must state that the zoning is compatible with the proposed use of the buildings).
	ID-4	**Zoning Map**
	ID-5	**A certified copy of the current Community Zoning Ordinance –** Required for all new construction proposals. (For Rehabilitation proposals, it will be required if rezoning is required).

	ID-6	**Site Utility Availability (Electricity, Fuel, Water, Sanitary Sewer, and Storm Sewer)** - Documentation from the municipality and/or local utility companies on their letterhead regarding utility availability and adequacy to serve the site, including whether such is currently available or will be available.
	ID-7	**Community Map** - A map showing the major streets in the community, identifying the precise location of the site as well as the location of various facilities and amenities such as food stores, drug stores, schools, social services, railroads, parks, churches, etc. in the immediate neighborhood. This community map must be in an 8 ½ " x 11" format, ready for copying and distribution to MSHDA staff and private appraisers without further required annotation. Include walkable community features.
	ID-8	**Resumes** for all members of the development team without previous MSHDA experience.
	ID-9	**Architects and Builders License –** Provide copies of the professional license **for the architect, and a current** Michigan Residential Builders License **for the contractor.**
	ID-10	**Preliminary Market Study** – Please submit if available. (The Authority's Underwriting Committee may require a preliminary or full market study).
	ID-11	**HOME Team Advantage Targeting Checklist (For HOME Team Advantage proposals only) (Tab II)**

FEASIBILITY PROCESSING PHASE

The following list of items **MUST** be submitted, if applicable, during the Feasibility processing phase. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required.**

√	#	Feasibility Processing Documents
	F-1	**Market Study** - For new construction, or unoccupied acquisition rehab proposals, a Market Study must be submitted and dated within six months of development acceptance. (For occupied acquisition and preservation proposals, a rent comp study only may be required, see item F-6 below). **(Tab C)**
	F-2	**Environmental Assessment** - Level 1 Environmental Assessment or, if necessary, a Level II with a remediation plan. Dated within 6 months of application submission. **(Tab D)**
	F-3	**Architectural Plans and Specifications –** For new construction proposals, feasibility level plans and specs are required. (For the rehabilitation proposals, specifications are required, but plans will be required as necessitated by the Authority's Chief Architect).
	F-4	**Capital Needs Assessment and Updated Scope of Work (For rehabilitation and preservation proposals only)** - A 20 year Capital Needs Assessment (CNA) with itemized cost breakdown is required. A third party contracted by the Authority will do the CNA. The CNA will take approximately 60-85 days to complete from the time it is requested. Therefore, applicants may submit a request for the CNA to be ordered prior to the submission of the Combined Application together with funds to pay for the CNA (Between $5,000 & $6,000). An updated listing of the proposed scope of work based on the CNA and architects analysis of rehab needs and improvements is required, including a unit-by-unit matrix when the scope of work is finalized.
	F-5	**Appraisal (For acquisition and/or preservation proposals only)** – A certified general appraisal to establish the "As is" value is required. The appraisal must be submitted and dated within six months of application submission. (An appraisal may also be required for new construction projects applying for Tax Credits where there is an identity of interest between the seller and purchaser). **<u>Note: For Section 236 Preservation Proposals,</u>** the Authority will require a certified general appraisal to establish the "as is" value of the property as a market rate rental and "as rehabilitated" as a subsidized rental development. **This appraisal will be contracted by the Authority and will take 60 to 90 days from the time it is requested to complete. Appraisals contracted by the current property owner or the prospective purchaser will not be acceptable.** Applicants may request that an appraisal be ordered prior to application submission. An appraisal fee of $6,000 must accompany such requests.
	F-6	**Rent Comp Study (For acquisition and preservation proposals only) -** An acceptable rent comparability study is required of all acquisition, and/or preservation proposals. If no rent increase is planned, a rent comp study may not be required.

	F-7	**Marketing Transition Plan (For occupied acquisition and preservation proposals only) –** Provide a Marketing Transition Plan detailing efforts the management agent will use to train staff and market units at significantly higher rents upon normal turnover. (The Marketing Transition Plan is not required for Sec 8 Preservation proposals). **Construction Transition Plan (For occupied acquisition and preservation proposals only)** - Provide a Construction Transition Plan to maintain existing residents through the construction and transition period, identifying how the rehabilitation will take place in each unit.
	F-8	**Resident Information (For occupied acquisition and preservation proposals only) –** For an existing MSHDA financed development, please provide a copy of the developments current rent roll and information on the current residents, including lease terms, family size, gross incomes, and unit size, as well as occupancy and turnover data for the previous three years. For non-MSHDA developments, please submit the same If available.
	F-9	**Development Financial Statements (For non-MSHDA acquisition and preservation proposals only)** – Provide three years worth of audited financial statements that clearly set out the recent operating history of the development. Provide copies of all current subsidy contracts; and the currently approved rental structure and tenant-paid utility allowances.
	F-10	**Operating Budgets –** The proposed management agent must submit a proposed development-operating budget with notes, and budget comparables. In addition, an Equipment/Furnishings Budget, and a Marketing Budget for initial lease up must be submitted. (These budget forms are available on our website @ www.michigan.gov/mshda under Property Managers/Management Agents/Asset Management Guideline and Forms/Intake Package).
	F-11	**Financial Statements** for the sponsor(s) and builder. Individual sponsors must submit the form Individual Financial Statement (the form is available from MSHDA upon request). Financial statements must be current, which is defined as not more than six months earlier than the date the proposal, is submitted. MSHDA requires that financial statements be updated every six months throughout the development and construction process.
	F-12	**Tax Abatement** - Proof of tax abatement or a letter of tax abatement support from local taxing jurisdiction, if required. For Tax Credit submissions – See Addendum I, page I-19 for specific filing requirements.
	F-13	**Proof of Local Taxation Rate (if no tax abatement)** For acquisition/ rehabilitation a tax bill will meet requirement.
	F-14	**Renaissance Zone (if applicable)** – Letter on official letterhead and signed by an official of the local municipality which verifies that the property is in a designated Renaissance Zone.
	F-15	**Title Insurance** - Required. The commitment must be current and in the estimated amount of the mortgage loan and must include the pending disbursement language of the title company. Any liens, easements, encumbrances, or other exceptions noted in the title insurance commitment must be researched, and readable copies of the recorded documents must be provided.
	F-16	**Certified copy of city or township charter.**

COMMITMENT PROCESSING PHASE

The following list of items **MUST** be submitted, if applicable, during the Commitment processing phase. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required.**

√	#	Commitment Processing Documents
	C-1	**Trade Payment Breakdown –** Please submit **four original signed copies** of MSHDA's trade-payment-breakdown form. **(Tab AA)**
	C-2	**Certification by Architect** – Certification as to the completeness of the plans and specifications will be required at mortgage loan commitment. (The certification for an rehabilitation/preservation proposal should include language verifying that the plans and specs meet the needs identified under the CNA and architect's physical inspection of property). **(Tab JJ)**
	C-3	**Affirmative Fair Housing Marketing Plan** - An Affirmative Fair Housing Marketing Plan is required for all new construction, and non-MSHDA acquisition, and preservation proposals. (For rehabilitation/preservation proposals with current MSHDA financing, a new or updated plan is required). **(Tab P)**
	C-4	**Preliminary Equal Employment Opportunity Plan** – **(Tab F)**
	C-5a	**Confirmation of Secondary Financing** - if applicable. Proposals which rely on some form of secondary financing to achieve feasibility must be accompanied by a detailed explanation and a confirmation from the source of that secondary financing that the additional funds have been applied for and are (or are expected to be) available.
	C-5b	**Federal, State or Local Government Financing** - Letter from local municipality stating that application has been submitted and amount of request.
	C-5c	**Grants/Other Subsidies** - Letter from proposed grantor stating that application has been submitted and amount of request.
	C-6	**Soil Conditions** – For new construction, proof of engineering report and soil boring test. (Will be required for the acquisition or preservation of an existing property if the footprint of the site plan is changing).
	C-7	**Ownership Entity Formation** – Certified copy (dated within 30 days of application submission) of the certificate of limited partnership and any amendments on file with the Department of Labor & Economic Growth, Bureau of Commercial Services and a copy of the limited partnership agreement with all amendments.
	C-8	**Architects Errors and Omissions Professional Liability insurance**. Include both the current certificate of insurance and a copy of the policy. **(Tab KK)**

	C-9	**Surveyor's Certificate of Facts and the ALTA Survey** - Refer to MSHDA's Legal Form 025 and 026 for Surveyors Certificate and survey standards to be submitted. Ensure that any encumbrances of records are included. **(Tab EE and Tab U)**.
	C-10	**Letter of Intent and/or Syndication Partnership Agreement –** A copy of the letter of intent and/or the syndication partnership agreement (to include pay-in schedule) from the equity provider.
	C-11	**Owner-Architect Agreement for Design and Administration Services –** Submit fully executed Legal Form 023. **(Tab BB).**
	C-12	**Contractor's Qualification Statement** (AIA Document A305 - available from MSHDA upon request).
	C-13	**Site Plan Approval** – A letter signed by the appropriate official of the municipality on its letterhead which identifies the project's name and address and states that final site plan approval has been granted, or, if site plan approval has been granted with contingencies, a Statement in the letter stating that the contingencies do not have to be approved by the planning board but may be approved at a staff level. (**For acquisition or preservation proposals**, a letter from the municipality indicating that the relevant board or commission of the municipality has reviewed the proposal, including the level of rehabilitation work to be completed at the site, and that no further plan approvals are necessary).
	C-14	**Nonprofit Documentation** (where applicable.) a) Documentation of Federal 501(c)(3) or (4) status from the IRS, if applicable. b) A certified copy of the Articles of Incorporation dated within 30 days of application submission. c) Copy of by-laws d) List of the board of directors, if applicable; indicate which are representatives of the local community. e) An executed agreement between the sponsor and the non-profit if the project is a joint venture. f) Description of the nonprofits previous experience in housing. Must complete form provided on Page 28. g) Current Certificate of Good Standing dated within 30 days of application submission. h) Map outlining service area of nonprofit i) Narrative describing the non-profit's involvement in the local community j) Proof of CHDO approval (if applicable)

TAX CREDIT PROCESSING PHASE

The following list of items **MUST** be submitted with the Tax Credit Application, if applicable, during the Tax Credit processing phase. To indicate each exhibit submitted, place a check mark in the box provided and return a copy of this checklist with your application. Each submitted exhibit must be tabbed with the appropriate corresponding number from the checklist. **Two copies of all exhibits are required.**

√	#	Tax Credit Processing Documents
	T-1	**For Tax Credit submission –** **Financing –** All documentation must include loan/grant amount and interest rate and terms (if applicable) **Construction:** Firm commitment for construction that is accepted by the sponsor. **Permanent: Authority Financing -** A copy of the Mortgage Loan Feasibility and/or Commitment Resolution. **Existing Project Financing (for acquisition/rehabilitation projects only):** Documentation from lender of existing mortgage stating that the project owner has been approved for assumption of existing mortgage.
	T-2	**LIHTC Location Points Report** – Print and include the point report generated using the LIHTC Point Score system on MSHDA's Web Site. (See footnote on Page 1-17 for further instructions on using the LIHTC Point Score System) The LIHTC Location Points Report will reflect the Census Tract Needs Score, and also whether the project is in an Empowerment Zone (Tab L), Enterprise Community (Tab L), Renaissance Zone (Tab M), Core Community (Tab Y), Renewal community (Tab L), Principal City (Tab S) or Federally Recognized American Indian Reservation.
	T-3	**High-Speed Internet** – New construction projects will be required to provide certification from the architect that all units will be equipped for high–speed internet capability. Wiring each unit with at least one Category 5 network wall socket or by installing a wireless Local Area Network server and providing each unit with at least one wireless LAN card may accomplish this. (Tab HH)

ADDENDUM IV

Application for Debt Financing for TEAM Tax-Exempt Bond, Taxable Bond, HOME TEAM Advantage, and Preservation Direct Lending Programs

APPLICATION FILING REQUIREMENTS

- A non-refundable application fee of $1,000 must accompany the application.
- **<u>Two copies</u>** of the primary application and the required exhibits must be submitted.
- <u>This is not an application for competitive Housing Tax Credit</u>. Two separate applications will be required. A "9%" Housing Tax Credit application must be submitted as required under the competitive funding rounds of the Housing Tax Credit Program, but in no case may it be submitted prior to formal "acceptance for processing" for debt financing.
- The first page of the primary application should indicate the specific direct lending program (Taxable Bond, TEAM, HOME TEAM Advantage, or the appropriate Preservation Program) being applied for.
- If applying for HOME Team Advantage financing, please refer to Addendum II for general information on using HOME for rental housing.

To assist in the filing of an application, this addendum includes:

- TEAM (tax exempt) Lending Parameters
- Taxable Lending Parameters
- HOME Team Advantage Lending Parameters, including targeting criteria
- Section 236 Preservation Lending Parameters
- Section 8 Preservation Lending Parameters
- Preservation Lending Parameters for other federally-assisted or MSHDA-financed rental housing
- Preservation Fund Parameters

In addition, please reference Tabs A – MM for related information and/or forms on our web site under MSHDA's Combined Application for Rental Housing Programs, specifically the following:

- Site Selection Criteria **<u>Tab "CC"</u>**.
- MSHDA's Market Analysis Guidelines **<u>Tab "C"</u>**.

- MSHDA's Environmental Review process and requirements **Tab "D"**.
- "Income Limits & Rent Restrictions by Household Size by County," published by HUD **Tab "E"**.
- Preliminary Equal Opportunity Plan Requirements **Tab "F"**
- Affirmative Fair Housing Marketing Plan Requirements **Tab "P"**.
- "Survey Requirements/Language to be incorporated on Survey" **Tab "U"**.
- Trade Payment Breakdown **Tab "AA"**.
- Owner Architect Agreement **Tab "BB"**.
- Michigan Rural Areas **Tab "GG"**.
- Requirements for Errors and Omissions Insurance for Architects and Engineers **Tab "KK"**.
- HOME Rental Targeting Criteria and HOME TEAM Advantage Targeting Checklist **Tab "II"**.
- HOME TEAM Advantage Program - Modifications to the MSHDA Standards of Design **Tab "DD"**.
- Certification by Architect **Tab "JJ"**.

The form for Individual Financial Statement and the Contractor's Qualification Statement (AIA Form A305-1986) are available upon request, as are various policy and program statements.

For more information please contact the Multifamily Development Division at (517) 373-6880 in Lansing or (313) 456-3597 in Detroit

TEAM Tax-Exempt Lending Parameters
(Non-preservation)
April 26, 2006

MSHDA offers tax-exempt loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create affordable housing, achieving at least one of the following public benefits:
   - Family units serving a proportion of low income households, or
   - Senior housing, including proposals supporting successful aging in place, or
   - Rural housing, or
   - Supportive housing integrated and supported by necessary services, or
   - Workforce housing provided in high-cost areas, or
   - Mixed use buildings supporting downtown housing, or
   - Native American housing needs are addressed.
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The term of affordability must be at least 35 years.
4. The loan must be a long-term earning asset.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

I. Eligibility and Resource Availability:

A. Project Size: Typical projects range between 24-150 units, with exceptions considered for rehabilitation projects.

B. Ineligible Projects: Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy.

C. Income Restrictions: At a minimum, either 20% of the units must be income and rent restricted to households whose incomes do not exceed 50% of area median income or 40% of the units must be income and rent restricted to households whose incomes do not exceed 60% of area median income.

D. Eligible Borrowers: A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination. However, a legal entity must be formed that is an "eligible borrower" under the Authority's Act, prior to mortgage loan commitment.

E. Tax-Exempt Eligibility: Proposed tax exempt financing must equal at least 51% of the total development cost and rehabilitation proposals must include rehabilitation in an amount that satisfies the 15 percent test of the Internal Revenue Code for the use of private activity bond cap.

F. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

G. HOME TEAM Advantage: This program combines tax-exempt financing and federal HOME funds to encourage rental housing development in communities in non-urban areas of the state. Current targeting and HOME loan criteria will continue for this rural housing program.

H. Other HOME Loans: A HOME loan may be available at 3% simple interest for gap funding for:

- Small-scale development (less than 48 units)
- Very low-income family housing units in urban areas (minimum of 10% of project),
- Integrated supportive housing units,
- Marquis or signature downtown housing developments,
- Native American housing,
- Workforce housing in high-cost, growth areas.

The minimum amount of HOME assistance will be $1,000 per unit. The maximum amount of HOME assistance will not exceed the lesser of (1) the equity gap as determined by MSHDA, or (2) $25,000 per unit in the development.

Local contributions, such as tax abatement, infrastructure investments in sidewalks, improved roadways, and local redevelopment efforts that contribute to the housing project and/or sponsor capital contributions will be required.

Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two options related to the HOME loan:

a. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.
b. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a HOME loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

H. Resident Services Fund: This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

II. Interest Rate and Term:

A. Rate: The tax-exempt TEAM rate is currently 6.0 percent, fully amortizing over a 35-year loan term. Construction loans are offered at the same interest rate. In MSHDA designated non-urban areas of the state, the interest rate may be up to 1 point less than the TEAM-urban rate. The interest rate charged by MSHDA depends upon bond market conditions and may change from time to time. Current rates are published on MSHDA's Web site. The rate quoted when a proposal is accepted for processing will not be subject to increase for six months.

B. Special Rate: A 1/2 percent rate deferral may be available if at least 15% of the units are affordable to a targeted population with services to be provided in accordance with a MSHDA-approved Addendum III Supportive Services Plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.

C. Risk-sharing: MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) insurance. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

D. Term/Prepayment: The typical mortgage term is 35 years. Mortgages in combination with a HOME loan are not eligible for prepayment. After the 15th year, MSHDA may allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty. TEAM loans without a HOME component are eligible for prepayment after the 20th year, and with MSHDA's approval after the 15th year. All prepayment penalties described above will apply.

E. Affordability Restrictions: Affordability restrictions for loans with a HOME component must extend for 50 years if a HOME loan is provided.

III. Underwriting Standards:

A. Loan Limits: MSHDA's loans are limited to 110 percent of the applicable for-profit HUD 221 (d)(3) Mortgage Limits, as amended from time to time by HUD. For-profit sponsors can receive a mortgage loan of up to 90 percent of the total development cost, subject to the above limitation. Any proposal involving the syndication or sale of

Housing Tax Credit is characterized as a for-profit venture, even if the developer or the general partner of the partnership that owns the project is a nonprofit group. The Authority's loan amount must be at least 50% of total developments cost for the federal 4% Housing Tax Credit to be available to assist in the financing.

B. Market Determination: The proposed rents must be supported by a professional, independent market analysis or a rent comparability analysis as determined by MSHDA and must be sufficient to meet debt service and normal operating expenses. The impact of the proposed housing on other MSHDA developments in the area will be a factor in accepting proposals for financing.

C. Debt Coverage: MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.

D. Developer Fees: The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan. The developer fee for development of 49 units or less is 20 percent of the total development cost (excluding the developer fee, developer overhead, and consultant fees). The developer fee for tax-exempt loans for projects in excess of 50 units is limited to 15 percent, not to exceed $2 million.

E. Operating Assurance Reserve: A Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses.

F. Replacement Reserve: The first year deposit to this reserve is a minimum of $250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year deposit to the replacement reserve for family new construction or rehabilitation will be equal to $300 per unit. Development amenities, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

G. Vacancy Loss: Vacancy loss will be budgeted, at a minimum, at 5% of the gross rental potential. At MSHDA's discretion in certain markets, a higher vacancy loss may be required.

H. Limited Dividend Calculations: MSHDA's statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less MSHDA mortgage and less any grants and "soft" or non-amortizing secondary financing. For tax-exempt loans, a return on the equity contribution of the owner of 12 percent in the first year following the cut-off date is permitted. This limit increases by one percent per year until a cap of 25 percent is achieved.

I. Rent-Up Allowance: For new construction or vacant acquisition and rehabilitation proposals, a Rent-up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports three to six months of interest. In situations where a rent-up period in excess of three months is projected to achieve 60% occupancy, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving 60% occupancy as described above, and providing evidence of 12 month leases at rents at least to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

For occupied acquisition and rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing.

J. MSHDA Design Standards/Site Selection Criteria: MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA's web site. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

K. Construction Contingencies: Construction contingencies will be required for all proposals involving rehabilitation, with the requisite contingency amount determined on a case-by-case basis. Rehabilitation contingencies of 10 percent of the construction contract amount should be anticipated. Generally, these funds will be a line item in the development budget within "soft cost" and not part of the construction contract. For new construction, a construction contingency will not be required unless unusual site conditions are anticipated (such as buried debris or environmental remediation). Contingency funds are allowed if required by the equity partner.

L. No Relocation: Involuntary permanent relocation of existing residents in rehabilitation proposals is not permitted.

M. Syndication and other Equity Pay-In: A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the development and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.

IV. Other Information:

A. Fees: Application fee of $1000. A 2% commitment fee and tax credit and compliance fees apply.

B. Equal Opportunity: MSHDA requires a plan from:

- The contractor to provide equal opportunities for minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the workforce; and
- The management agent to aggressively and affirmatively market the housing to minority groups.

C. Cost Certification: The contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project.

D. Loan Management: MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling documents, and its financial and physical condition through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

E. Application processing: A six-month processing time from application to closing is anticipated. Proposals not submitting a market study, Phase I environmental report, preliminary soil borings, site analysis and feasibility level drawings, and operating numbers within 60 days of acceptance will be removed from the active pipeline.

F. Typical Processing Steps:

- Preliminary conference (optional)
- Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and issues letter of acceptance for processing (lock of rate and HOME Loan funds for 6 months)
- Mortgagor submits market study, environmental Phase I, preliminary soil borings, and feasibility level drawings within 60 days of acceptance or application is considered inactive
- Within 60 days of receipt of feasibility materials (market study, environmental Phase I, preliminary soil borings, feasibility level drawings, and operating numbers), staff issues Mortgage feasibility letter or Board action - may be combined with mortgage loan commitment)
- Mortgage loan commitment/Loan Closing

G. Unique Circumstances: Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

Taxable Lending Parameters
(including Preservation)
April 26, 2006

MSHDA offers taxable loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create affordable housing, achieving at least one of the following public benefits:
   - Family units serving a proportion of low income households, or
   - Senior housing, including proposals supporting successful aging in place, or
   - Rural housing, or
   - Supportive housing integrated and supported by necessary services, or
   - Workforce housing provided in high-cost areas, or
   - Mixed use buildings supporting downtown housing, or
   - Native American housing needs are addressed.
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The term of affordability must be at least 35 years.
4. The loan must be a long-term earning asset.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

I. Eligibility and Resource Availability:

A. Project Size: Typical projects range between 24-150 units, although exceptions will be considered for rehabilitation proposals.

B. Ineligible Projects: Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy.

C. Income Restrictions: Typically all units are targeted to 60% of area median income and below, but mixed income housing is permissible in cases where at least 20% of the units are affordable to households at 50% of area median income or 40% of the units are affordable to households at 60% of area median income.

D. Eligible Borrowers: A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination. However, a legal entity must be formed that is an "eligible borrower" under the Authority's Act, prior to mortgage loan commitment.

E. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

Taxable Lending Parameters
(including Preservation)

F. Preservation Fund Loan: In the event the Authority determines a preservation transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two Preservation Fund Loan options:

a. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.
b. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a PF loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

G. HOME Loans: A HOME loan may be available at 3% simple interest for gap funding for:

- Small-scale development (less than 48 units), particularly in rural areas,
- Very low-income family housing units in urban areas (minimum of 10% of project),
- Integrated supportive housing units,
- Marquis or signature downtown housing developments,
- Native American housing,
- Workforce housing in high-cost, growth areas.

The minimum amount of HOME assistance will be $1,000 per unit. The maximum amount of HOME assistance will not exceed the lesser of (1) the equity gap as determined by MSHDA, or (2) $25,000 per unit in the development.

Local contributions, such as tax abatement, infrastructure investments in sidewalks, improved roadways, and local redevelopment efforts that contribute to the housing project and/or sponsor capital contributions will be required.

Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two options related to the HOME loan:

a. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.
b. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a HOME loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

H. **Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

II. Interest Rate and Term:

A. **Rate:** The 10-year US Treasury Note plus 240 basis points, fully amortizing over a 35-year loan term. Construction loans are offered at the same interest rate. The interest rate charged by MSHDA depends upon bond market conditions and may change from time to time. Current rates are published on MSHDA's Web site. The rate quoted when a proposal is accepted for processing will not be subject to increase for six months. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.

B. **Special Rate:** A 1/2 percent rate deferral may be available if at least 15% of the units are affordable to a targeted population with services to be provided in accordance with a MSHDA-approved Addendum III Supportive Services Plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.

C. **Risk-sharing:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) insurance. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

D. **Term/Prepayment**: The 35 year mortgage is not eligible for prepayment. After the 15th year, MSHDA may allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty.

E. **Affordability Restrictions:** Affordability restrictions must extend for the term of the originally scheduled mortgage(s) 35 years**,** or 50 years if a Preservation Fund or HOME loan is provided.

III. Underwriting Standards:

A. **Loan Limits:** Under the Taxable Bond program, MSHDA's loans are limited to 70 percent of total development cost or 110 percent of the applicable for-profit HUD 221(d)(3) Mortgage Limits, whichever is the lower.

B. **Market Determination:** The proposed rents must be supported by a professional, independent market analysis (or rent comparability analysis for acquisition/rehab or preservation proposals) and must be sufficient to meet debt service and normal operating expenses. The impact of the proposed housing on other MSHDA housing developments in the area will be a factor in accepting proposals for financing.

C. **Debt Coverage:** MSHDA requires a debt coverage ratio of 1.10, although a higher ratio may be required for developments perceived to present a greater risk.

D. **Developer Fees:** The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan. The developer fee for Taxable loans is 15% of total development costs (excluding the developer fee, developer overhead, and consultant fees) not to exceed $1 million.

E. **Operating Assurance Reserve:** A Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses.

F. **Replacement Reserve:** The first year deposit to this reserve is a minimum of $250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year deposit to the replacement reserve for family new construction or rehabilitation will be equal to $300 per unit. Development amenities, unit type, or anticipated replacement of capital items in the case of rehabilitation may dictate a higher required deposit.

G. **Vacancy Loss:** Vacancy loss will typically be budgeted at 5% of the gross rental potential. In certain markets, a higher vacancy loss may be required and preservation proposals with project-based subsidies may be underwritten at 3%.

H. **Limited Dividend Calculations:** MSHDA’s statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less MSHDA mortgage and less any grants and "soft" or non-amortizing secondary financing. For taxable loans, a return on the equity contribution of the owner of 25 percent per year is permitted.

I. **Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-Up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports three to six months of interest. In situations where a rent-up period in excess of three months is projected to achieve 60% occupancy, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving 60% occupancy as described above, and providing evidence of 12 month leases at rents at least equal to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

J. MSHDA Design Standards/Site Selection Criteria: MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA's web site. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

K. Construction Contingencies: Construction contingencies will be required for all proposals involving rehabilitation, determined on a case-by-case basis. Rehabilitation contingencies of 10 percent of the construction contract amount should be anticipated. Generally, these funds will be a soft cost line item and not part of the construction contract. For new construction, a construction contingency will not be required unless unusual site conditions are anticipated (such as buried debris or environmental remediation). Contingency funds are allowed, if required by the equity partner.

L. Syndication and other Equity Pay-In: A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the development and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.

IV. Other Information:

A. Fees: Application fee of $1000. A 2% Commitment fee and tax credit and compliance fees apply.

B. Equal Opportunity: MSHDA requires a plan from:

- The contractor to provide equal opportunities for minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the workforce; and
- The management agent to aggressively and affirmatively market the housing to minority groups.

C. **Cost Certification:** The contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project.

D. **Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling documents, and financial and physical condition, through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

E. **No Relocation:** Involuntary permanent relocation of existing residents in rehabilitation proposals is not permitted.

F. **Application processing:** A 30-day processing time from application to Acceptance is anticipated. Determination of Mortgage Loan Feasibility, a Board action, will typically require an additional 60 days.

G. **Typical Processing Steps:**

- Preliminary conference (optional)
- Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and issues letter of acceptance for processing (lock of rate and Preservation Fund and HOME funds for 9 months)
- Within 30 days of receipt of feasibility materials (market study, environmental Phase I, preliminary soil borings, feasibility level drawings, and operating numbers), staff recommends Mortgage loan feasibility (Board action)
- Award of 9% LIHTC
- Mortgage loan commitment

H. **Other Unique Circumstances:** Developers are encouraged to discuss unique development or preservation opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

HOME TEAM Advantage Lending Parameters
(Tax-exempt and HOME)

Reformatted May 15, 2006

MSHDA offers a comprehensive financing package for the development of affordable rental housing in rural communities. Reduced rate tax-exempt financing is combined with federal HOME funds to support developments of 12-49 units (minimum of 24 units is recommended). Generally, a maximum of 49 units per community will be considered, although rehabilitation proposals up to 100 units may be considered in non-urban communities, if targeting criteria is met. The program provides construction loans, fixed rate permanent mortgages, Housing Tax Credit, and HOME funds designed to complement and enhance the feasibility of projects located in the non-urban traditional areas of commerce of the state. Projects designed for elderly occupancy are limited to 50% of the total production under this program.

Loans will be provided to the extent the following objectives are met:

- The community contributes to the project's affordability and feasibility through tax abatement, as well as other options, such as donated or reduced cost land, waived tap fees, or infrastructure improvements, including broadband access, and
- The site is connected to community services such as schools, shopping, and parks by sidewalks or other walkable connections, is supported by local infrastructure and public transit, if available, and provides a mix of housing types and land uses conducive to residential use.

I. Eligibility and Resource Availability:

A. Eligible Areas: Project sites must be located in non-urban communities (see attached list of MSHDA-defined urban areas) and must meet targeting criteria identified on the attached checklist. In addition, any proposal awarded funding under the USDA Rural Development Section 515 program is eligible to participate in HOME TEAM Advantage.

B. Tax-exempt Eligibility: Proposed tax-exempt financing must equal at least 51% of the total development costs and rehabilitation proposals must include rehabilitation in an amount that satisfies the 15% test of the Internal Revenue Code for the use of private activity bond cap. Participation in the Housing Tax Credit program is required and underwriting standards of the Qualified Allocation Plan will apply.

C. HOME Investment Partnership Funding: The minimum amount of HOME funding will be $1,000 per unit. The maximum amount of HOME assistance will be the lesser of (1) the equity gap as determined by MSHDA, (2) $16,000 per unit multiplied by the total number of units in the development. MSHDA will consider exceptions to fund up to $25,000 per unit multiplied by the total number of units in the development for proposals which fully meet the targeting criteria, present opportunity for significant community impact, and involve higher development costs because of rehabilitation, demolition, and other site or development factors.

HOME assistance will be provided as a non-amortizing subordinate mortgage to be repaid from:

-Twenty-five percent of any cash distribution to the project owner, as determined by an independent annual audit of project income and expenses;

-The proceeds of any refinancing or sale designed to alter the low-income character of the residents of the development. In this event, the full subordinate HOME loan will be accelerated and become immediately due and payable; and

-Project operating revenue following repayment of the first mortgage. The outstanding balance of the HOME loan will become the new first mortgage and begin to bear interest at the same rate as the original mortgage with monthly mortgage payments equal to the payments under the original first mortgage.

D. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

II. Interest Rate and Term:

A. Rate: The interest rate for this program will be one percentage point below the applicable TEAM lending rate. The specific interest rate and a reservation of HOME funds will be assigned at acceptance for processing and will be valid for 6 months. A proposal not achieving mortgage loan commitment within 6 months of acceptance may lose the HOME reservation or be subject to an increase in the interest rate to close.

B. Term: The typical mortgage term is 35 years and is not eligible for prepayment. After the 15th year, MSHDA may allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty.

C. Affordability Restrictions: Affordability restrictions must extend for the originally scheduled term of the mortgage (35 years). The approval by MSHDA of changes in project ownership will require, at a minimum, the new owner's acceptance of all rental and income restrictions.

III. Underwriting Standards:

A. Determining the Number of HOME Units: The number of HOME-designated units will be calculated using the amount of HOME funds necessary for project feasibility, as determined by MSHDA (see preceding section), divided by the lesser of the per unit total development cost or the federal HOME subsidy limit, generally not to exceed 11 units. HOME-designated units will be subject to a minimum 20-year affordability period, beginning after project completion.

B. Income Limits: A minimum of 10% of the total number of units must be available to or occupied by households with incomes at or below 30% of the area median income, adjusted for family size. Up to 10% of the units may be market rate. The remaining units must be occupied by households with incomes at or below 60% of the area median, adjusted for family size. These income restrictions will satisfy the income limits imposed by the Authority's Act, the Housing Tax Credit Program and the HOME Investment Partnership Program and will continue as long as the Authority's mortgage is outstanding. The income of households and the area median gross income shall be determined in a manner consistent with such determinations under Section 8 of the U. S. Housing Act of 1937.

Restrictions requiring the occupancy of units by families with incomes of less than 30% of the area median income may be waived by MSHDA if such a requirement is determined to jeopardize the financial feasibility of the project. In addition, and only where MSHDA determines that it is necessary to maintain the financial feasibility of the project, more than 10% of the units in the development may be designated as market rate rentals, although the HOME funds will be reduced in proportion to the number of market units in excess of 10%.

C. Rental Restrictions: Ten percent of the units will be rent restricted (inclusive of an estimate of tenant paid utilities) to 30% of 30% of the area monthly median income. These units will be occupied by Extremely Low Income households with incomes at or below 30% of the area median income, adjusted for family size, as defined by HUD. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. This criterion may be waived by MSHDA if its imposition results in the debt financing totaling less than 55% of the total development cost.

Rents (inclusive of an estimate of tenant-paid utilities) on any of the remaining units that are targeted for Tax Credit occupancy will be restricted to 95% of 30% of 60% of area monthly median income as established by HUD. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. In some situations, as noted below, the use of HOME funds will require further rental restrictions.

Rental increases during any 12-month period will be limited to not more than 5% of the rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments). Rents on vacated units may be increased to the maximum level permissible by the program.

Notwithstanding the above rental restrictions, all HOME-assisted units in a rental project must be occupied only by households that are eligible as low-income families, defined as families whose annual income does not exceed 60% of the median family income for the area and have rents not to exceed the lesser of the Existing Section 8 Fair Market Rent (FMR) as established by HUD or the high HOME rents as established by HUD. In rental projects with five or more HOME-assisted rental units, 20% of the HOME-assisted units must be occupied by very low-income families and have rents not to exceed the lesser of the FMR, the low HOME rents, or a rent that does not exceed 30% of the annual income of a family whose income equals 50% of the median income for the area, as determined by HUD.

D. Developer Fees: The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan under which the Housing Tax Credit is administered. The developer fee for development of 49 units or less is 20% of the total development cost (excluding the developer fee, developer overhead, and consultant fees). The developer fee for tax-exempt loans for projects in excess of 50 units is limited to 15%, not to exceed $2 million.

E. Limitation for Return on Equity: Limited dividend distributions (return on equity) will be limited to 12% for the first year, commencing with the cut-off date, and will increase by 1% per year until a cap of 25% is reached. The return is fully cumulative.

Total Development Cost shall include all costs incurred in the development and construction of the project as supported by the mortgagor's cost certification. Equity shall include all cash investment by any partner. Equity does not include any grant funds or any secondary, non-amortizing financing from sources such as HOME, CDBG, and the Federal Home Loan Bank Affordable Housing program.

F. Tax Abatement Requirement: A project selected for the HOME TEAM Advantage Program must enter into an agreement with the local community to pay a service fee in lieu of real property taxes for a period not less than the term of the first mortgage.

G. Construction Contract Allowances: Line item allowances within the construction contract for builder profit, builder overhead, and general requirements may not exceed an aggregate of 20% of the total construction contract amount.

H. Debt Coverage: MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.

I. Operating Assurance Reserve: An Operating Assurance Reserve (OAR) will be established equal to four months' estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses.

J. Replacement Reserve: The first year deposit to this reserve is a minimum of $250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year deposit to the replacement reserve for family new construction or rehabilitation will be equal to $300 per unit. Development amenities, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

K. Rent-Up Allowance: For new construction or vacant acquisition and rehabilitation proposals, a Rent-up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports three to six months of interest. In situations where a rent-up period in excess of three months is projected to achieve 60% occupancy, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving 60% occupancy as described above, and providing evidence of 12 month leases at rents at least equal to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

For occupied acquisition and rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing.

IV. Other Information:

A. Design Standards: Projects will be required to be designed and constructed according to MSHDA's Standards of Design with exceptions as listed in Design Appendix C. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

B. Cost Certification: The contractor and mortgagor must submit timely certifications of the actual costs incurred in developing and building the project.

C. Labor Standards: Every contract for the construction of housing under this program that includes 12 or more HOME-designated units must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act, to all laborers and mechanics employed in the development of any part of the housing.

D. Financing Fees: A non-refundable application fee of $1000 must be submitted with any proposal for mortgage loan financing. Additionally, a non-refundable filing fee of .5% of the proposed mortgage amount will be charged for projects presented to the Authority Board for a combined Mortgage Loan Feasibility/Commitment authorization. These non-refundable fees are credited toward a 2% commitment fee that is paid at the initial loan closing.

E. Syndication and other Equity Pay-In: A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the development and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.

F. Equal Opportunity: MSHDA requires a plan from:

- The contractor to provide equal opportunities for minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the workforce; and
- The management agent to aggressively and affirmatively market the housing to minority groups.

HOME TEAM Advantage Lending Parameters
(Tax-exempt and HOME)

G. Application processing: A six-month processing time from application to closing is anticipated. Proposals not submitting a market study, Phase I environmental report, preliminary soil borings, site analysis, feasibility level drawings, and operating numbers within 60 days of acceptance will be removed from the active pipeline.

H. Typical Processing Steps:

- Preliminary conference (optional)
- Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and issues letter of acceptance for processing (lock of rate and HOME Loan funds for 6 months)
- Mortgagor submits market study, environmental Phase I, preliminary soil borings, and feasibility level drawings within 60 days of acceptance or application is considered inactive
- Within 60 days of receipt of feasibility materials (market study, environmental Phase I, preliminary soil borings, feasibility level drawings, and operating numbers), staff issues Mortgage feasibility letter or Board action - may be combined with mortgage loan commitment)
- Mortgage loan commitment/Loan Closing

H. Unique Circumstances: Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

Section 236 Preservation Parameters
(Tax-Exempt)
April 26, 2006

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing Section 236 developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. Long-term income targeting significantly balances the loss of Rent Supplement or RAP in currently financed MSHDA developments.
3. The loan will be a long-term earning asset.
4. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.
5. The longest possible term of affordability is achieved.

I. Eligibility and Resource Availability:

A. Any Section 236 development in Michigan is eligible to apply for a tax-exempt loan from MSHDA.

B. Bond Cap: $75 million of tax-exempt bond cap will be allocated, with no more than $25 million available for non-MSHDA developments.

C. Income Restrictions: Section 236 income limits apply until the expiration of the IRP, plus the 5-year extension required by HUD as part of the decoupling program. LIHTC income restrictions at 60% AMI will apply for the term of affordability.

D. Minimum Rehab: At least $5,000 in rehab/unit and 15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment).

E. Preservation Fund Loan: In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two options:

1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.
2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

G. Resident Services Fund: This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA**,** for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

H. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities Criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

I. Rent Restrictions: Rent levels will be targeted to be affordable to 45% of AMI or the level of income currently served by the development.

J. Tax-Exempt Eligibility: All proposals must include rehabilitation in an amount that satisfies the 15 percent test of the Internal Revenue Code for the use of private activity bond cap and the proposed tax exempt financing must equal at least 51% of the total development cost.

II. Interest rate and term:

A. Rate: The rate will be based on a municipal index to be updated and posted weekly on MSHDA's Web site. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.

B. Timing: Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.

C. Special Rate: Up to 1/2% of the interest rate may be deferred if at least 15% of the units will be affordable to a targeted special needs population with services provided in accordance with a MSHDA approved Addendum III Supportive Services plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.

D. Risk-sharing: MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) insurance. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

E. Term/Prepayment: Neither Part "A" or Part "B" loan is eligible for prepayment. After the 15th year, MSHDA may allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty.

F. Term of Affordability: Affordability restrictions must extend for the originally scheduled MSHDA mortgage(s) 35 years, or 50 years if a Preservation Fund loan is provided.

III. Underwriting Standards:

A. Appraisal: MSHDA will contract for a certified general appraisal to establish the "as-is" value of the property as a market rate rental and "as rehabilitated" as a subsidized rental development. This appraisal will take 60 to 90 days from the time it is requested.

B. Market Analysis: A rent comparability analysis will be required. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will be required, as will vacancy rates and turnover data for the past 3 years. The rent comparability study may be waived, if rent increases are deemed insignificant by MSHDA. See MSHDA's Market Guidelines specific to the Section 236 Preservation Program.

C. Part "A" Loan: Part "A" is the debt that can be supported by the rental income of the property, less vacancy loss, operating expenses, reserves, and escrows. Part "A" of the first mortgage will be underwritten at a fixed rate over a fully amortizing 35-year term at a minimum of a 1.10 debt coverage ratio.

D. Part "B" Loan: Part "B" is the debt that can be supported by the continuing stream of income from the "decoupled" Interest Reduction Payments contract. Part "B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the Interest Reduction Payments contract at a 1.0 debt coverage ratio.

E. Remarketing Reserve: A Remarketing Reserve Escrow, equal to one year of principal and interest payments of the "Part A" mortgage will be required. Funds may be withdrawn to cover vacancy loss greater than five percent, and/or for marketing expenses. Following twenty four consecutive months of average economic vacancy loss of 5% or less of the yearly Authority approved budgeted rent levels, the mortgagor may request in writing to the Director of Asset Management any remaining balance in the remarketing reserve be deposited into the development's operating account, unless there is a deferred PF loan to be repaid.

F. Replacement Reserve: The annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than $300 per unit. The required minimum initial deposit in the replacement reserve account will be the greater of $700 per unit or the amount determined necessary to satisfy the requirements of a Preservation Capital Needs Assessment.

G. Vacancy Loss: Vacancy loss will be budgeted at a minimum to 5% of gross rent potential. Vacancy loss in excess of 5% may be required.

H. Other Reserves: 1) One month's gross rent potential will be required to be deposited to the operating account of the development at closing, 2) a capitalized replacement reserve, if determined by the Capital Needs Assessment, 3) a "rent-lag" escrow, and 4) possible capitalized operating deficit escrow based on a cash flow analysis.

I. Developer Fee Limitations: The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs", (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:

- 10% of project acquisition cost; plus
- 15% of Fee-based Development Costs
- Not to exceed the limits defined in the Michigan Qualified Allocation Plan.

Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.

J. LD Payments: Return on equity investment limited to the amount approved by HUD in the decoupling approval, subject to the Authority's confirmation the amount does not exceed its statutory limitations. LD payments will be non-cumulative.

K. HUD Approval: HUD approval of the transaction will be a condition of loan closing. The approvals from HUD must be consistent with the program and development proforma stated in the Authority's mortgage loan commitment staff report.

L. Application processing (subject to timely submission of required documents):

1. **For current MSHDA developments:** 6 month processing time from application to closing is anticipated, including the completion of a Preservation Capital Needs Assessment.

2. **For non-MSHDA developments:** A preliminary application is required of all non-MSHDA proposals. MSHDA will conduct site visit and determine acceptability of proposal within 45 days of preliminary application. Closing within 6 months of receipt of complete application.

IV. Other Requirements:

A. HAP Extensions: All developments must apply for and accept any available HAP or other HUD subsidy extensions, subject to MSHDA approval. Non-MSHDA developments must receive a 20-year Section 8 contract renewal as part of the application process.

B. No Relocation: Involuntary permanent relocation of existing residents is not permitted.

C. Contract Administration: MSHDA administration of the enhanced vouchers will be sought.

D. Tax Abatement: If underwriting requires tax abatement, either the developer must obtain satisfactory tax abatement or provide documentation from the local unit of government that the existing tax abatement will continue for the 35-year term.

E. Reserve Ownership: Applicants must affirm MSHDA's ownership of excess reserves.

F. Fees: Application fee of $500 for currently MSHDA financed developments and $1000 for non-MSHDA. A 2% Commitment fee, tax credit and compliance fees will apply. Preservation Capital Needs Assessment fee based on size of development.

G. Transition Plan: The new owner and its management agent must develop a transition plan detailing the efforts the agent will use to train staff and market units at significantly higher rents and to maintain existing residents through the construction and transition period.

H. Syndication and other Equity Pay-In: A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the development and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

At its discretion, MSHDA may provide construction financing to bridge equity pay in.

I. Unique Circumstances: Developers are encouraged to discuss unique preservation opportunities not within the above described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

J. For MSHDA-financed Loans only: Replacement reserve draws will not be processed subsequent to a preservation loan application, without notification to MSHDA Development Division.

Section 8 Preservation Parameters
(Tax-Exempt)
April 26, 2006

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing Section 8 developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. The loan will be a long-term earning asset.
3. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.
4. The longest possible term of affordability is achieved.

I. Eligibility and Resource Availability:

A. Eligible Developments: Any project-based Section 8 development in Michigan is eligible to apply for a tax-exempt loan from MSHDA.

B. Bond Cap: $150 million of tax-exempt bond cap will be allocated, with no more than $50 million available for non-MSHDA developments.

C. Income and Rent Restrictions: Section 8 income limits apply until the expiration of the HAP, at which time applicable LIHTC income and rent restrictions linked to 60% AMI will apply for the balance of the term of affordability.

D. Minimum Rehab: At least $5,000 in rehab/unit and15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment required).

E. Preservation Fund Loan: In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two options:

1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from

available cash flow, applied first to accrued interest, then to current interest and principal.

2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

F. Resident Services Fund: This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA**,** for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

G. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

H. Tax-Exempt Eligibility: All proposals must include rehabilitation in an amount that satisfies the 15% test of the Internal Revenue Code for the use of private activity bond cap and the proposed tax exempt financing must equal at least 51% of the total development cost.

II. Interest Rate and Term:

A. Rate: The rate will be based on a municipal index and will be changed weekly and posted on MSHDA's Web site. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.

B. Timing: Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.

C. Special Rate: Up to 1/2% of the interest rate may be deferred if at least 15% of the units will be affordable to a targeted special needs population with services provided in accordance with a MSHDA approved Addendum III Supportive Services plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.

D. Risk-sharing: MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) insurance. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

E. **Term/Prepayment:** Neither the Part "A" or "B" loan is eligible for prepayment. After the 15th year, MSHDA may allow prepayment of the Part "A" mortgage and Part "B" if the HAP has expired, after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor shall pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty.

F. **Affordability Restrictions:** Affordability restrictions must extend for the originally scheduled term of the MSHDA mortgage(s) 35 years, or 50 years if a Preservation Fund loan is provided.

III. Underwriting Standards:

A. **Appraisal/Rent Comps:** "As is" encumbered value appraisal and acceptable rent comparability analysis required. MSHDA reserves the right to request additional information, including a market study which meets Authority guidelines, if there are concerns with the development's ability to be successfully marketed.

B. **Part "A" Loan:** A 35-year Part "A" loan will be established using the lesser of the acceptable rent comp study rent levels, trended for the remaining term of the Section 8 HAP contract, or the current Section 8 contract rents. An annual increase of 1% will be assumed when trending the rents that support the Part A loan, unless the sponsor provides data to support a more appropriate factor.

C. **Part "B" Loan:** A Part "B" loan may be established using the difference between the trended market rents and the actual contract rents. The term of this loan will equal the remaining term on the HAP contract.

D. **Cash Flow Trending Projections:** MSHDA will use historical data to trend Section 8 rent increases until the current HAP expires. MSHDA will assume a 2% rental income increase after the projected HAP termination. Developments with projected operating deficits may be required to fund an operating deficit reserve.

E. **Operating Assurance Reserve:** A Preservation Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR will be held by MSHDA and will accumulate interest.

This reserve, to assist in the transition to market rents, is to be fully funded by the anticipated end of the existing HAP contract. Funds may be withdrawn when the existing HAP contract and all extensions expire, and will not be available prior to that date. MSHDA may allow a reduced initial deposit to the OAR as long as the initial deposit plus accumulated interest income equals the required deposit by the time the existing HAP contract expires.

If no Preservation Fund loan is involved, the OAR will be released to the development's operating account after all project based HAP assistance has been terminated, and following two full calendar years, (twenty-four consecutive months) with annual average vacancy loss plus rent concessions plus bad-debt equaling 5% or less of the yearly MSHDA approved budgeted gross rent potential. Upon achieving this criterion, the mortgagor may request in writing to the Director of Asset Management that any remaining balance in the OAR be disbursed to the development's operating account.

In loans with a Preservation Fund loan, the unutilized OAR will be returned to MSHDA in an amount not to exceed the outstanding balance of the PF loan, with the any remainder going to the development's operating account, after meeting the same criterion above.

In the event an operating deficit reserve is required, the OAR requirement may be waived.

F. Replacement Reserve: The mortgagor must establish a schedule of annual deposits to a replacement reserve of a minimum of $300 per unit for the first year following refinancing. Furthermore, at the mortgage loan closing the sponsor must deposit the greater of $700 per unit, or an amount determined to satisfy the requirements of the Authority approved CNA over a 15 year period.

G. Vacancy Loss: Initial vacancy loss will be projected based on the average of the previous two years annual vacancy loss, but in no case less than 3%.

H. Other Reserves: 1) One month's gross rent potential will be required to be deposited to the operating account of the development at closing, 2) possible capitalized operating deficit escrow based on a cash flow analysis.

I. Developer Fee Limitations: The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs", (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:

- 10% of project acquisition cost; plus
- 15% of Fee-based Development Costs
- Not to exceed the limits defined in Michigan's Qualified Allocation Plan.

Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.

J. Limited Dividend Calculations: For Pre-1980 developments, LD's will typically be limited to 12% of equity. The equity upon which an LD is based will be increased to include the original equity plus the total principal payments made on the original loan. Returns will be non-cumulative and Seller waiver of accumulated and deferred LD fees will be required.

For post-1980 MSHDA developments and non-MSHDA financed developments the rate of LD will be limited based on HUD regulations. The equity upon which an LD is based will be the original equity unless HUD approves a higher amount.

IV. Other Requirements/Information:

A. **Application processing** (subject to necessary HUD approvals and timely submission of required documents):

   1. **For current MSHDA developments:** 6 month processing time from application to closing is anticipated, including the completion of a Preservation Capital Needs Assessment.

   2. **For non-MSHDA developments:** MSHDA will conduct site visit and make determination on acceptability of proposal within 30 days of application. Closing within 6 months of receipt of complete application.

B. **HUD Approval/HAP Extensions:** HUD must approve the assignment of the HAP and the 2530's of the new development team. Prior to the existing HAP expiration, all developments must apply for and accept any available HAP or other HUD subsidy extensions, subject to MSHDA approval. Non-MSHDA developments must receive a 20-year Section 8 contract renewal as part of the application process.

C. **No Relocation:** Involuntary permanent relocation of existing residents is not permitted under the program.

D. **Contract Administration:** It is anticipated HUD will designate MSHDA as the contract administrator.

E. **Tax Abatement:** If underwriting requires tax abatement, documentation from the local unit of government must confirm its continuance for the 35-year term.

F. **Reserve Ownership:** Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD.

G. **Fees:** Application fee of $500 for currently MSHDA financed developments and $1000 for non-MSHDA. A 2% Commitment fee and LIHTC and compliance fees apply. Preservation Capital Needs Assessment fee based on size of development.

K. **Syndication and other Equity Pay-In:** A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the rehabilitation. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

   Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

   At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.

H. **Unique Circumstances:** Developers are encouraged to discuss unique preservation opportunities not within the above-described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

V. For currently financed MSHDA developments only:

Level Debt Service: Debt service on the new loan must equal or exceed the previous debt service, unless HUD approves a reduction.

Replacement Reserve Draws: Replacement reserve draws will not be processed subsequent to a preservation loan application, without notification to MSHDA's Development Division.

Preservation Parameters (non-Section 8 or 236)
(Tax-exempt)
April 26, 2006

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing rental developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. Significant low-income targeting is achieved.
3. The loan will be a long-term earning asset.
4. The transaction uses the least amount of Preservation Fund loan necessary.
5. The longest possible term of affordability is achieved.

I. Eligibility and Resource Availability:

A. Eligible Developments: Any Section 202, Rural Development Section 515, expiring 4% LIHTC, or other MSHDA financed rental development in Michigan is eligible to apply for a new tax-exempt loan from MSHDA.

B. Bond Cap: $100 million of tax-exempt bond cap will be allocated, with no more than $50 million available for non-MSHDA developments.

C. Income Restrictions: At a minimum, the proposal must provide for income and rent restrictions on 40% of the units, targeting those units to households with incomes at or below 60% of area median income. Except for developments specifically designated for elderly occupancy, the applicable percentage of each unit type must be targeted.

D. Minimum Rehab: At least $5,000 in rehab/unit and15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment required).

E. Preservation Fund Loans: In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two Preservation Fund loan options:

1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12^{th}

year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

F. Resident Services Fund: This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

G. Rent Restrictions: At a minimum, rent levels on 40% of the units will be targeted to be affordable to 60% of AMI or the level of income currently served by the development. Except for developments specifically designated for elderly occupancy, the applicable percentage of each unit type must be restricted. Rent restrictions apply for the term of affordability.

H. Tax-Exempt Eligibility: All proposals must include rehabilitation in an amount that satisfies the 15% test of the Internal Revenue Code for the use of private activity bond cap and the proposed tax exempt financing must equal at least 51% of the total development cost.

I. Michigan Green Communities Grant: A grant of $1,000 per affordable unit, up to a maximum of $50,000, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a $3,000 grant is provided for administrative reporting.

II. Interest rate and term:

A. Rate: The rate will be based on a municipal index and will be updated weekly and posted on MSHDA's Web site. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.

B. Timing: Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.

C. Special Rate: Up to 1/2% of the interest rate may be deferred if at least 15% of the units will be affordable to a targeted special needs population with services provided in accordance with a MSHDA approved Addendum III Supportive Services plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.

D. Risk-sharing: MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) insurance. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

E. Term/Prepayment: After the 15th year, MSHDA may allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty.

F. Affordability Restrictions: Affordability restrictions must extend for the originally scheduled MSHDA mortgage(s) 35 years, or 50 years if a Preservation Fund loan is provided.

III. Underwriting Standards:

A. Appraisal/ Market Analysis: "As-is" appraisal and acceptable rent comparability analysis required. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will also be required, as will vacancy rates and turnover data for the past 3 years. A rent comp study may be waived if rent increases are deemed insignificant by MSHDA. See MSHDA's Market Guidelines specific to the Preservation Programs.

B. Part "A" Loan: Part "A" is the debt that can be supported by the rental income of the property, less vacancy loss, operating expenses, reserves, and escrows. Part "A" of the first mortgage will be underwritten at a fixed rate over a fully amortizing 35-year term at a minimum of a 1.10 debt coverage ratio.

C. Part "B" Loan: Part "B" is the debt that can be supported by the continuing stream of income from HAP or other project-based rental assistance, if available. Part "B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the rental assistance contract at a 1.0 debt coverage ratio.

D. Replacement Reserve: The annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than $300 per unit. The required minimum initial deposit in the replacement reserve account will be the greater of $700 per unit or the amount determined necessary to satisfy the requirements of the Preservation Capital Needs Assessment.

E. Vacancy Loss: Vacancy loss will typically be budgeted at 5% of the gross rental potential. In certain markets, a higher vacancy loss may be required and preservation proposals with project-based subsidies may be underwritten at 3%.

F. Reserve Requirements: 1) One month's gross rent potential will be required to be deposited to the operating account of the development at closing, 2) a capitalized replacement reserve, if required by the Preservation Capital Needs Assessment, and 3) possible capitalized operating deficit escrow based on a cash flow analysis, 4) a remarketing reserve equal to one year of principal and interest payments of the "Part A" mortgage may be required. Funds may be withdrawn to cover vacancy loss greater than 5%, and/or for marketing expenses, 5) an operating assurance reserve equal to four months' operating expenses may be required.

G. Developer Fee Limitations: The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs" (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:

- 10% of project acquisition cost; plus
- 15% of Fee-based Development Costs
- Not to exceed the limits defined in Michigan's Qualified Allocation Plan.

Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.

H. LD Payments: Return on equity investment limited to the amount approved by HUD, RD, or MSHDA, subject to the Authority's confirmation that the amount does not exceed its statutory limitations.

I. HUD or Rural Development Approvals: HUD or Rural Development approval of the transaction will be a condition of loan closing. The approval from HUD or Rural Development must be consistent with the program and development proforma stated in the Authority's mortgage loan commitment staff report.

J. Application processing (subject to timely submission of required documents):

1. **For current MSHDA developments:** 6-month processing time from application to closing is anticipated, including the completion of a preservation comprehensive needs assessment.

2. **For non-MSHDA developments:** MSHDA will conduct a site visit and determine acceptability of the proposal within 30 days of application. Closing within 6 months of receipt of complete application.

IV. Other Requirements:

A. Rental Assistance Extensions: All developments must apply for and accept any available HAP or other rental assistance extensions, subject to MSHDA approval.

B. No Relocation: Involuntary permanent relocation of existing residents is not permitted.

C. Contract Administration: MSHDA contract administration of any rental assistance or ongoing HUD contract administration will be sought and a Memorandum of

Understanding with Rural Development will be necessary to coordinate loan oversight requirements.

D. Tax Abatement: If underwriting requires tax abatement, either the developer must obtain satisfactory tax abatement or provide documentation from the local unit of government that the existing tax abatement will continue for the 35-year term.

E. Reserve Ownership: Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD or Rural Development.

F. Fees: Application fee of $500 for currently MSHDA financed developments and $1000 for non-MSHDA developments. A 2% Commitment fee, tax credit and compliance fees will apply. A Preservation Capital Needs Assessment fee based on the size of the development.

G. Transition Plan: The new owner and its management agent must develop a transition plan detailing the efforts the agent will use to assure on-site staff are trained in MSHDA reporting and compliance and to maintain and support existing residents through the construction and rent compliance transition period.

H. Syndication and other Equity Pay-In: A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an acceptable and detailed schedule setting forth the timing of the anticipated payment of all costs necessary to complete the development and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.

Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.

At its discretion, MSHDA may provide construction financing to bridge equity pay in.

I. Unique Circumstances: Developers are encouraged to discuss unique preservation opportunities not within the above described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

Preservation Fund Parameters

April 26, 2006

These parameters describe the Preservation Fund, which is a source of funds available to support the preservation of Michigan's federally assisted rental housing. This housing stock currently serves Michigan's lowest income citizens, was typically built between 1974 and 1985, and is in need of rehabilitation and preservation.

MSHDA is offering tax-exempt and taxable preservation lending to extend the affordability, viability, and livability of this existing rental housing for a minimum of 35 years. A Preservation Fund loan may be available as additional gap financing for eligible developments in the event the Authority determines the transaction will not adequately address unmet physical needs. When a Preservation Fund loan is provided, affordability restrictions will apply for 50 years. Financing is provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.

2. Significant low-income targeting is achieved or current income targeting is maintained.

3. The loan will be a long-term earning asset.

4. The longest possible term of affordability is achieved.

5. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.

Eligible Developments: Any Section 8, Section 236, Section 202, RD Section 515, expiring 4% LIHTC, or other MSHDA-financed rental development in Michigan is eligible to apply for a new MSHDA direct tax-exempt or taxable loan.

Preservation Fund Loan Rate and Term: In the event the Authority determines the new financing transaction will not adequately address unmet physical needs a Preservation Fund loan (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.

If more than 40% of the allowable developer fee is deferred, the developer has two Preservation Fund loan options:

1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the

13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12th year. Beginning in the 13th year, annual payments will be made from available cash flow, applied first to accrued interest, then to current interest and principal.

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years.

Source of Preservation Fund: The source of funding for the Preservation Fund will be preservation income received from preservation transactions subsequent to June 30, 2005 involving MSHDA financed developments. These funds will be held in a separate fund and segregated from other funds of the Authority. Both interest income and principal will be available for loans. Funds not disbursed in a fiscal year may be available for disbursement in a subsequent year. The Preservation Fund will be evaluated at the end of FY 2008.

Preservation Fund Limitations: Preservation Fund loans will be limited to funding available in the Fund. The Preservation Fund's current balance is $7,200,000. Preservation transactions will also be limited by the availability of bond cap for the first mortgage loans. It is estimated approximately $14 million in Preservation Fund loans will be available in FY 2007.

Resident Services Fund: This fund will be administered by a 501c3 non-profit created for this purpose or another entity, as approved by MSHDA, for the purpose of funding services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other services determined to be necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

Ownership of Reserves: Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD or Rural Development.

Processing: Proposals for funding will be written to comply with MSHDA's direct lending preservation parameters as may be established from time to time and published on MSHDA's Web site. MSHDA direct lending preservation loans, including those with Preservation Fund loans, will generally be processed within 6 months of application.